



Appraisal Institute  
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## **Is There Green Value in Real Estate?**

**Presentation by John Peebles AACI P.App.  
October 20, 2009**



# Presentation Outline

- Concept of Market Value
- Green Value – Cliché or Reality
- Difficulties in identifying green buildings
- Case Studies - Economics of Green buildings
- Trends
- Summary and Questions



# Market Value

The Appraisal Institute of Canada defines Market value as...

*The most probable price, as of a specified date, the property (rights) should sell after:*

- *reasonable exposure in a competitive market*
- *buyer and seller each acting prudently, knowledgeably, and for self-interest*
- *and assuming that neither is under undue duress.*

Market value is not “value to owner”.



# Has Sustainability Become a Cliché?

Green Value  
800 YATES / 1321 BLANSHARD Jawl Investment Corporation



Saving the world  
ONE CLICHE AT A TIME

Massive Saanich Shopping Centre Re-Development Goes Green (*Journal of Commerce* Dec 2008)



Downtown Victoria



1620 Blanshard Street, Victoria, BC

Property Report: ENVIRONMENT  
**Landlords wake up and smell the green**  
**The rush is on to leave a smaller footprint - and they're not talking about a building's lot size**  
RICHARD BLACKWELL  
July 17, 2007



# Is There a Green Premium?

- Lot of published research – Australia and USA (Kats)
- Case studies deal with institutional buildings or owner occupied
- Andrew Nelson of Deutsche Bank (Feb 2009) claims:

*Owners of green buildings should generally outperform -- or at least minimize their losses -- in this recession relative to less sustainable properties, while achieving other social or company goals. Firms increasingly demand greener facilities, yielding operating premiums for greener buildings even as overall tenant space needs decline with the economy, and the recession is not changing these preferences.*



# Defining Sustainable Buildings

Non Organic



Organic





# Defining Sustainable Buildings

Some Indicators of Sustainable Design

- Site Selection & Bldg Envelope Siting
- Use of Materials & Finishes
- Energy & Water Efficiency
- Quality of Indoor Environment – Occupant Comfort
- Durability and Adaptability, etc....

How Many Attributes = A Green Building?





# Identifying Sustainable Bldg Design



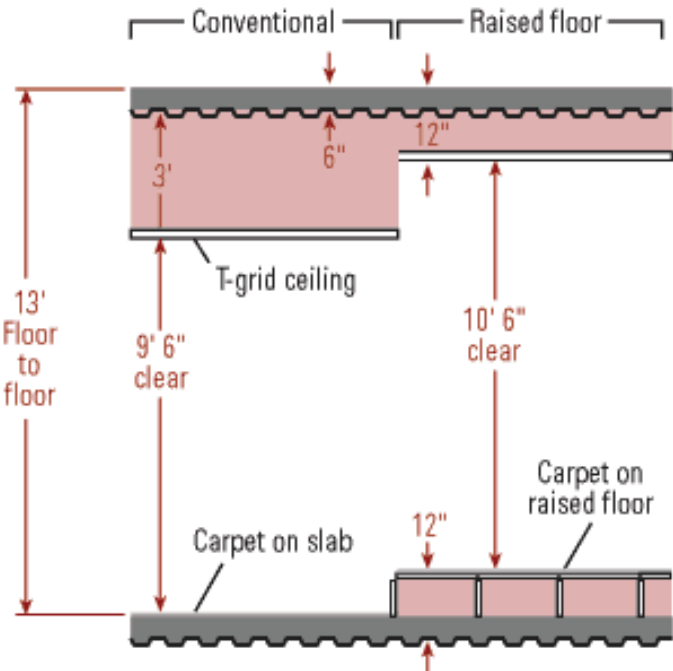




# Identifying Sustainable Bldg Design



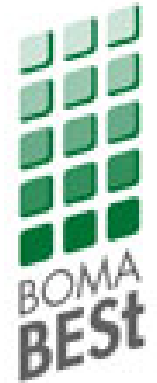
# Identifying Sustainable Bldg Design





# Green Premium is Tough to Prove

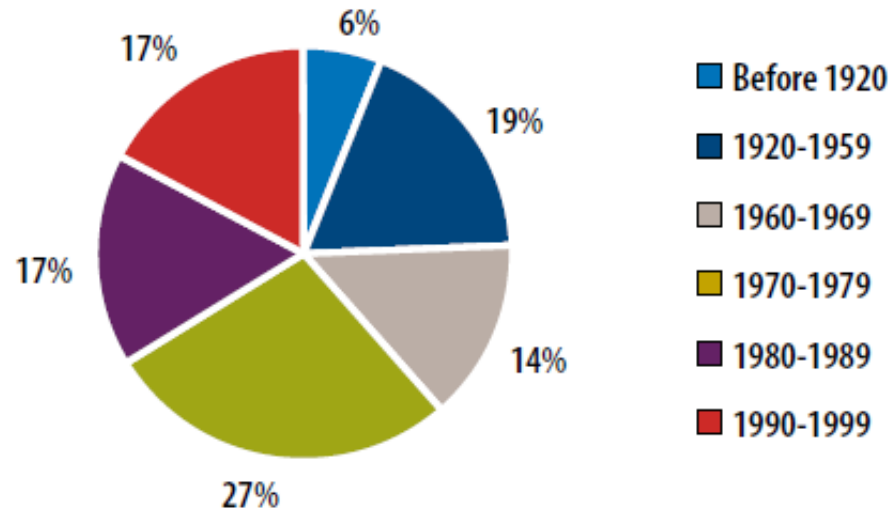
- Small # of commercial & residential buildings are rated
- Rating systems are complex – mixed reaction in the market
- Buildings may not deliver promised outcomes
  - Actual O&M costs > performance targets & intangibles tough to measure
  - New technology and building systems contribute to investment risk
  - Reduced covered parking may be a market negative
  - Tough to achieve rents in excess of competitors, esp. in downturn





# Prbs in Defining Green Buildings

Figure 7 : Commercial Buildings by Age



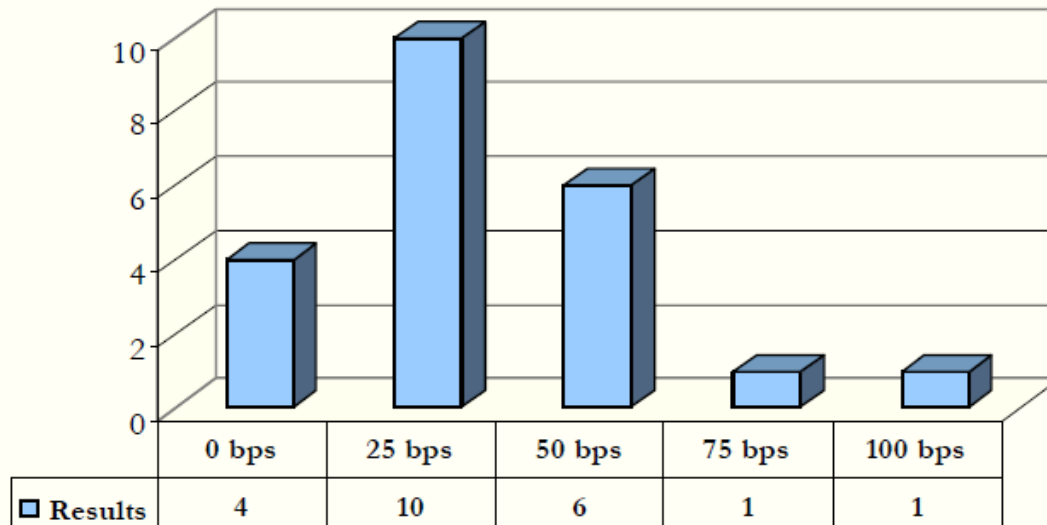
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# Appraisers Measure the Market

MARCH 2008 MORGUARD Investor Survey

Q5: Would you pay a premium?





# Different Perspectives on Value

- Motivation of developer, owner, and tenant may be “disparate”
  - Developer:
  - Owner
  - Tenant or Building Occupants

*Appraisers determines Market value rather value to a specific party*

- Generally accepted valuation practices are founded in economic theory
- Valuation tools to identify and measure impact of Sustainable Design:
  - Life-cycle analysis for comparison of investment options for upgrades
  - Pro Forma analysis common for development land valuation
  - Market analysis

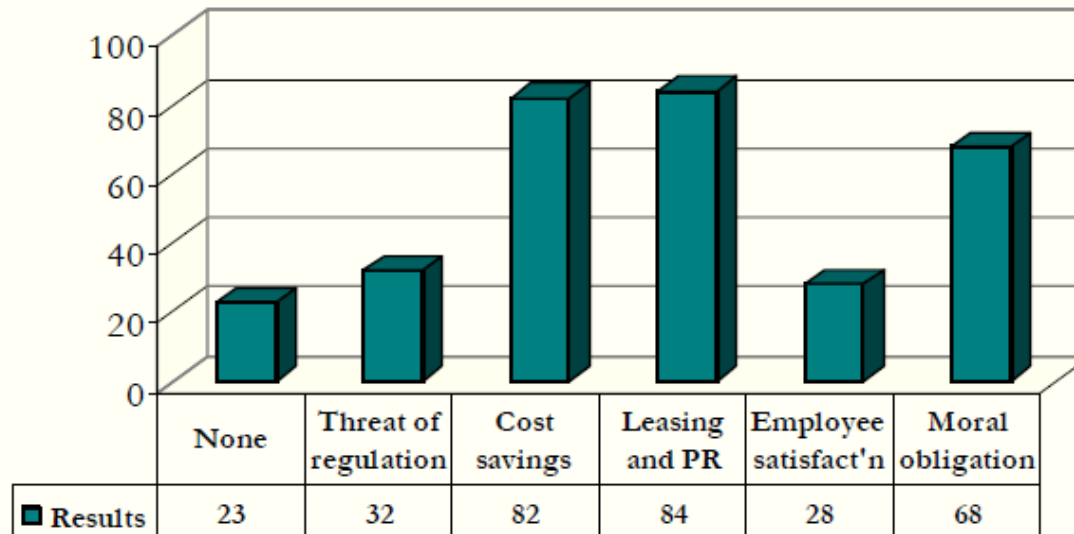




# Owner Motivation for Sustainable Buildings

2008 Morguard Investor Survey Findings

Q4: What are the drivers for environmental initiatives?



# Green Building Valuation Questions

A credible valuation must deal with these questions.

- What sets this property apart from competitors in sustainable design?
- Are high occupancy levels due to sustainable features?
- Will tenants pay more rent given alternatives & market conditions?
- Will a proposed green building deliver lower O & M costs?
- Are projected construction costs realistic?
- Will pension funds accept lower returns to meet Triple Bottom Line Goals?  
What about REITS and smaller investors?
- Are indirect benefits measurable or relevant for appraisal purposes?



*Green appraiser*





# CASE STUDY – DEVELOPMENT LAND



## The Radius – Mixed Residential Commercial Project at Blanshard & Herald St

- 350,000 sq. ft. LEED Silver Target for Office Tower
- Developer sold project in Sept 2008 due to failure to deliver economic project for financing
- Various parties reviewed the project – pro forma analyzed and budget adjusted
  - Project costs est. at \$125 million but \$10 million reduction needed for viability
  - LEED certification \$246,000 or 6% of soft costs budget
  - Geothermal and specialty window coatings estimated at about \$3 million



# CASE STUDY – NEW COMMERCIAL BUILDING

## The Raven – Commercial Project in Saanich

- 25,000 sq. ft. LEED Gold Target for Commercial
- First commercial building commissioned in Victoria with geothermal heating
- Incremental cost about \$300,000
- Geothermal delivers 100% of heating and 80% of cooling
- Cost of “free conditioned air” recovered from Tenant at \$1 PSF indexed at CPI
- Green Roof adds 30% increase in R factor
- Main capital cost benefits was reduction in mechanical systems



# CASE STUDY – GREEN LEASING

## ARC Building – Selkirk Waterfront Community Victoria

- Building commissioned in 1993
- Energy audit revealed opportunity for energy savings
- Tenant (Province) financed upgrades to building systems
- Tenant recovered investment over lease term ( $\pm 10$  yrs) by lower O&M expense
- Other incentives offered in rent at renewal
- 23% reduction in hydro and 54% reduction in gas costs
- \$1 PSF savings overall achieved in energy costs



ARC Building (Jawl Properties)

*BOMA Go Green Plus*





# NEW BUILDINGS TO WATCH



Atrium Building (Jawl Properties)



The Hudson Building (Townline Group)





Thank You

